



Just the FAQs

STO Tax Credit

What does the STO mean to Holy Family?



- In 2015, 467 qualified Iowa students received \$1,125,876
 - Awards ranged from \$300 to \$5,510
 - STO restrictions insist that every family needs to pay at least 5% of tuition
- STO dollars allow us to concentrate local tuition assistance dollars to middle class families that fall just outside STO eligibility and out-of-state families

What is the STO Tax Credit?



- Income tax credit available to Iowa taxpayers
 - For charitable contributions to an STO

What is an STO?

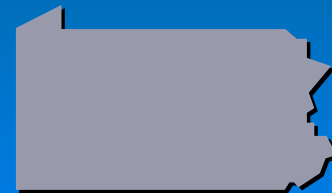


- STO stands for School Tuition Organization
- Special type of charity formed under Iowa law
- Provides tuition grants to qualifying students
- In grades K-12 (not preschool or college)
- To attend accredited nonpublic Iowa schools

Where did STOs come from?



- Iowa Educational Opportunities Act of 2006
- Signed by Governor Culver in June, 2006
- Similar programs exist in Arizona, Florida, Pennsylvania, and Rhode Island



Where do STO contributions go?



- By law, at least 90% of all contributions must be given to qualifying students in the form of tuition grants
- Qualifying students live in households whose income is less than three times the federal poverty guideline
- A family of four with income of less than \$72,750 qualifies to apply for a tuition grant

How much credit is available for 2015?



- Iowa Department of Revenue has allocated tax credits totaling \$12 million to Iowa's 12 STOs
- This means the STOs can raise over \$18.4 million in qualifying charitable contributions
- The Our Faith, Our Children, Our Future STO is authorized to raise \$5,479,436 this year

What is the Iowa tax benefit?



- Donors receive an Iowa tax credit equal to 65% of their STO contribution
- This is not merely a deduction, which would give a benefit of less than 9%
- This is a credit that reduces the actual tax liability of the taxpayer
- The credit also reduces the taxpayer's school district surtax, which magnifies the benefit

What is the federal tax benefit?



- School tuition organizations are qualified Section 501(c)(3) charities
- STO contributions are deductible on federal return of taxpayers who itemize deductions
- Actual tax benefit depends on marginal tax bracket, but ranges from 0% to 39.6%

Are there other tax considerations?



- Taxpayers who pay alternative minimum tax (AMT) may realize even greater tax benefits
- Some of the tax benefits may be repaid in the following year
- Donors should always check with their tax advisor to see how the STO credit affects them

What is the total tax benefit?



State	Credit that offsets Iowa income tax dollar for dollar	65%
Surtax	Magnifies basic state benefit by local school district surtax	Up to 13%
Federal	Value of deduction is based on marginal federal tax bracket	Up to 39.6%
Total		65 to 100%+

Who qualifies for the credit?



- Individuals
 - Iowa residents get the full 65% credit
 - Nonresidents get a portion of the credit
- Other entities
 - C corporations & S corporations
 - Estates & trusts
 - Partnerships & LLCs

Can you show me an example?



- Assume we have a married couple, filing a joint return for federal and state purposes
- Their taxable income is \$90,000, and they itemize deductions for federal tax purposes
- This couple donates \$1,000 to a school tuition organization for their favorite school

Example



	State	Federal	Total
Tax Before STO Contribution	5,853	10,719	16,572
Benefit of Iowa Credit	-650		-650
Benefit of Federal Deduction		-250	-250
Tax After STO Contribution	5,203	10,469	15,672
Total Benefit of Contribution	900 (tax savings) ÷ 1,000 (contribution) = 90%		

Can you share some real-life examples?



- Case 1: Iowa Lottery Winner
- Case 2: STO Board Member

Case 1: Iowa Lottery Winner



- Taxpayer won \$800,000 in Iowa Lottery
- Taxpayer was in highest federal tax bracket
 - Effective federal tax rate exceeded 35%
- Taxpayer made STO contribution of **\$55,000**
- Taxpayer saved **\$58,000** in income taxes

Case 2: STO Board Member



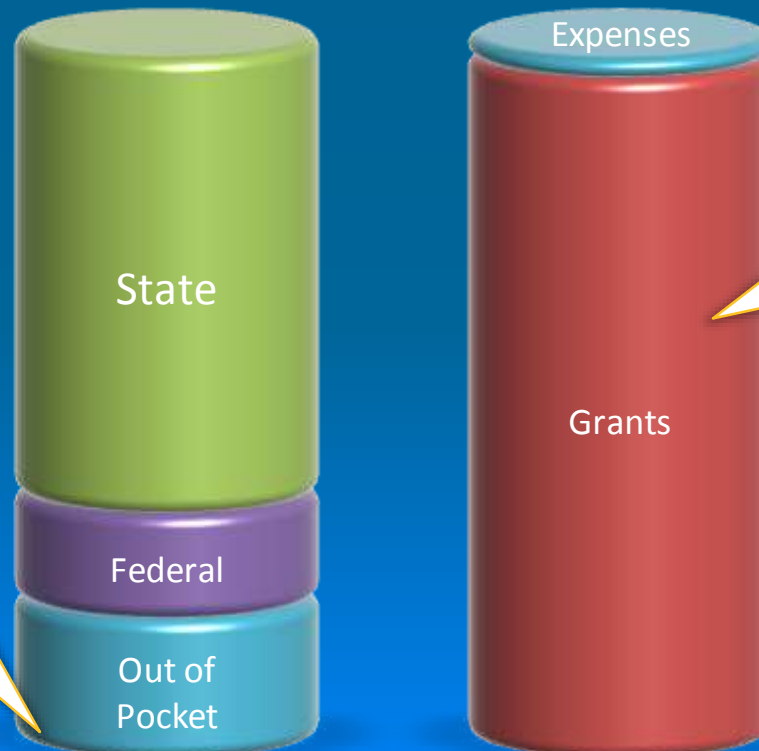
- Taxpayer was not in highest federal bracket
- Taxpayer was subject to AMT
- Taxpayer made STO contribution of **\$5,000**
- Taxpayer saved **\$4,997** in income taxes

How do cost and benefit stack up?



- Assume a local donor in the 15% federal bracket makes an STO contribution of \$1,000.

In this case, the donor has an out of pocket cost of **\$200...**



...but qualifying students receive **\$968** in tuition grants!

That's almost **five** times as much!



What are the contribution limits?



- Each taxpayer may give as much or as little as desired—there is no statutory limit
- The credit itself is nonrefundable—it can't be used to reduce your state tax below zero
- But it will increase your refund if your withholding exceeds your net tax
- Unused credits can be carried over and used against tax for up to five more years

What forms of gift are acceptable?



- Cash
- Investments
- Any other asset easily convertible to cash

When should donations be made?



- Before December 31
- Before all allotted credits have been awarded

Why should I contribute early?



- Because the race is on—contributions are allocated first to the schools that raise them
- If a school doesn't raise enough to cover local need, it must rely on leftovers from the other schools

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